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Report of the Secretary-General on the activities of the Office of Internal Oversight Services

Audit of the Office of the United Nations High Commissioner for Refugees private sector fund-raising activities

Note by the Secretary-General

1. Pursuant to General Assembly resolutions 48/218 B of 29 July 1994 and 54/244 of 23 December 1999, the Secretary-General has the honour to transmit, for the attention of the General Assembly, the attached report, conveyed to him by the Under-Secretary-General for Internal Oversight Services, on the audit of the United Nations High Commissioner for Refugees private sector fund-raising activities.

2. The Secretary-General takes note of its findings and concurs with its conclusions.

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Report of the Office of Internal Oversight Services on the audit of the Office of the United Nations High Commissioner for Refugees private sector fund-raising activities

Summary

Private sector fund-raising has become a major component of UNHCR's communication strategy and an important element of its fund-raising efforts. It is meant to supplement funds derived from the public domain, which have proven to be insufficient to meet the refugees' needs. The present report provides an insight into the management of private sector fund-raising by UNHCR. Given the growing involvement of the United Nations with the private sector and the increasing role of private sector fund-raising throughout the Organization, UNHCR's experience, both the achievements made and the issues still to be addressed, are therefore of a general interest.

Private sector fund-raising, though not a new activity in UNHCR, has recently been intensified. UNHCR private sector fund-raising strategy is to broaden UNHCR's donor base, develop structures and establish partnerships at a national level, particularly with the corporate sector. Private sector fund-raising activities have already become an important complementary source of income to UNHCR. In 1999, accumulated income from such activities ranked eighth on the list of UNHCR's largest donors, reaching a peak of almost $33 million, because of the Kosovo crisis. In 2000, some $15 million were raised from the private sector.

In 2000, the Office of Internal Oversight Services conducted an audit of private sector fund-raising activities within UNHCR to determine whether adequate policies and procedures had been established and activities were undertaken in an efficient and effective manner. The main findings were as follows:

- Policies and procedures still require to be more clearly defined in certain areas and developed in others, to improve economy and efficiency and to ensure activities are directed in a consistent and coherent manner;
- Self-sustainability is a key indicator for any fund-raising operation, but this, and the achievement of financial targets, were not explicitly established as an objective for most of the private sector fund-raising operations;
- Return on investment is the most important indicator to measure the success of any fund-raising operation. Therefore, the methodology for calculating the return on investment needs to be determined to increase the value of analytical comparison and allow more informed decision-making;
- Complete data on the overall cost of UNHCR's private sector fund-raising activities were not readily available: they were partly included in headquarters and field office budgets; partly in UNHCR-funded project budgets with National Associations; and partly covered directly from contributions raised;
- Contributions and associated fund-raising costs were understated; National Associations retained unearmarked contributions; and the treatment of membership fees was not clearly determined;

- National Associations have become UNHCR's preferred model and principal tool for private sector fund-raising. However, this concept is still to be proven effective, as the new direction of private sector fund-raising is only in its infancy;

UNHCR has taken positive steps to address the issues raised and recommendations made by the Office of Internal Oversight Services:

- Revised fund-raising guidelines to address the policy issues identified by the audit will be completed by the end of 2001;
- A global framework, acceptable to all country operations, with the goal of achieving self-sustainability will be developed. Financial targets have been established for 2001 and 2002 at $15 million and $18 million, respectively;
- A definition of return on investment will be developed and consistently applied;
- The concept of National Associations will be pursued but UNHCR acknowledged that proper monitoring and evaluation should be developed to ensure UNHCR funds are efficiently invested. UNHCR will concentrate on existing National Associations to ensure they reach planned fund-raising levels and move towards self-sustainability;
- Policies and procedures to be followed by National Associations will be defined and included in new Agreements to be signed by the end of 2001.

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I. Introduction

1. Private sector fund-raising has become a major component of UNHCR's communication strategy and an important element of its fund-raising efforts. It is meant to supplement funds derived from the public domain, which have proven to be insufficient to meet the refugees' needs. The present report provides an insight into the management of private sector fund-raising by UNHCR. Given the growing involvement of the United Nations with the private sector and the increasing role of private sector fund-raising throughout the Organization, UNHCR's experience, both the achievements made and the issues still to be addressed, are therefore of a general interest.

2. Private sector fund-raising activities, though not new to UNHCR, have recently been intensified. UNHCR private sector fund-raising strategy is to broaden UNHCR's donor base, develop structures and establish partnerships at a national level, particularly with the corporate sector, to support its fund-raising efforts. This has a potential to increase UNHCR's income by diversifying its fund-raising.

3. Private sector fund-raising activities already have become an important complementary source of income to UNHCR. In 1999, accumulated income from the private sector reached almost $33 million, because of the Kosovo crisis. Income from private sector fund-raising thus ranked eighth on the list of UNHCR's largest donors. There is no steady trend in donations, as they peak in emergency situations such as the former Yugoslavia in 1993 ($37 million), in the Great Lakes in 1994 ($28 million) and Kosovo in 1999 ($33 million), and fall in times of relative "calm". In 2000, income from the private sector totalled some $15 million. Overall, private sector fund-raising activities appear to be successful with a return on investment of 5:1 for the nine operations examined for the period 1995 to 2000. However, more detailed analysis shows that the success varies considerably per operation. Private sector fund-raising, at the country office level, is either carried out directly by UNHCR country offices (e.g., in Italy and, until recently, in Japan) or through National Associations, which are organizations created by UNHCR for fund-raising activities, normally in the form of a charity under national law. There are at present seven National Associations in Argentina, Australia, France, Japan, Spain, United Kingdom and the United States of America.

4. In 2000, the Office of Internal Oversight Services conducted an audit of UNHCR private sector fund-raising activities. The main objectives of the audit were to determine whether adequate policies and procedures had been established and activities were undertaken in an efficient and effective manner. The audit was conducted in accordance with general and specific standards for the professional practice of internal auditing in United Nations organizations. The audit focused on the period 1995 to 2000.

II. Policies

5. Despite the increasing importance of private sector fund-raising, UNHCR has yet to define a number of key policy issues. Existing guidance on *planning and organizing private sector fund-raising* provides valuable assistance in setting up private sector fund-raising activities. However, many policies and procedures still need to be clarified to improve economy and efficiency and to ensure a coherent approach. This was particularly pertinent to financial management, where policies needed to be established concerning sustainability, financial targets, the calculation of return on investment and other accounting and reporting matters. The Office of Internal Oversight Services believed that UNHCR should give priority to addressing policy matters and to issuing more comprehensive guidelines. *UNHCR intends to address these policy gaps in revised private sector fund-raising guidelines, which are envisaged to be completed by the end of 2001.*

6. Self-sustainability is a key indicator of any fund-raising operation. According to UNHCR's present guidelines, it should be known within three years of inception of a private sector fund-raising operation whether activities can be successful. However, this indicator was not explicitly established as an objective nor were financial targets and the time frame for achieving them. So far, only UNHCR's National Association in Spain has become self-sustainable, and this was by the second year of its creation. Their success may be partly attributable to the role their membership fees play in securing funding and to the nature of the contributions raised; more than one third comes from the public sector. The Office of Internal Oversight Services appreciated, nonetheless, that from the six National Associations existing at the time of the review, three had been established only recently and

were therefore not yet in a position to achieve self-sustainability.

7. The reasons for not achieving self-sustainability and for the success or failure of National Associations have not yet been ascertained by UNHCR. In January 2000, UNHCR conducted a general appraisal of private sector fund-raising projects, but sustainability was not evaluated nor was it concluded whether or not the activities were viable. Such an exercise would have allowed more informed project strategy decisions on fund-raising operations. The Office of Internal Oversight Services pointed out that without clearly defined financial targets and indicators, and periodic measurement of success, sustainability is difficult to achieve. *UNHCR indicated that the criteria and time period to achieve self-sustainability would vary from one country to the other. However, UNHCR plans to develop a global framework acceptable to all, with the key mechanism to attain this goal. It is intended to define relevant criteria and a framework with benchmarks within the Agreements with National Associations. UNHCR has established global financial targets for 2001 and 2002 for $15 million and $18 million, respectively. For 2002, financial targets have also been established at the country level.*

8. The return on investment is one of the most important indicators to measure the success of any fund-raising operation. It shows the ratio of income earned against fund-raising expenditure. A return on investment below 1 means that the funds raised do not even cover the cost of fund-raising. For the nine operations examined, the overall return on investment was 5.0 for the period from 1995 to 2000. Nonetheless, this calculation did not include staffing costs of the Private Sector Fund-Raising Unit at Headquarters, estimated at $0.9 million. A year-by-year analysis shows no steady trend, but shows a peak in 1999 in connection with the Kosovo emergency, followed by a significant drop in 2000, which was due to a sharp decrease in contributions raised in a post-emergency year and a marked increase in fund-raising expenditure as UNHCR invested into new or expanded fund-raising activities.

Return on investment by year

Year	*Contributions remitted to UNHCR (in $ millions)*	*UNHCR fund-raising expenditure (in $ millions)*	*Return on investment*
1995	4.2	0.5	7.9
1996	5.2	1.2	4.2
1997	4.6	1.3	3.5
1998	4.9	0.9	5.2
1999	19.1	1.4	13.3
2000	8.8	3.9	2.3
1995-2000	46.8	9.3	5.0

9. On a country-by-country basis, however, the return on investment varied considerably from 8.5 to less than 1, as shown in the following table:

Return on investment 1995-2000 (by country for the period)

Country	*Contributions remitted to UNHCR (in $ millions)*	*Per cent of total contributions*	*UNHCR fund-raising expenditure (in $ millions)*	*Per cent of total expenditure*	*Return on investment*
Italy	28.5	61.0	3.5	37.6	8.2
Japan	6.2	13.3	0.7	7.5	8.5
Spain	7.5	16.1	1.4	15.1	5.4
United Kingdom	1.6	3.4	1.0	10.8	1.5
United States of America	2.3	4.9	1.6	17.2	1.5
Others (Argentina, Australia, France, Greece)	0.6	1.3	1.1	11.8	0.5
Overall	46.8	100.0	9.3	100.0	5.0

10. Only the UNHCR offices in Italy and Japan and the National Association in Spain had cost-effective results in all years, i.e., throughout the period 1995-2000, the funds raised by them were always higher than the funds invested into their fund-raising activities. Their overall return on investment for the period was 8.2 for UNHCR Italy, 8.5 for UNHCR Japan and 5.4 for España con ACNUR. In fact, from the total UNHCR private sector contributions of $46.8 million,

raised from 1995 to 2000, UNHCR Italy alone accounted for $28.5 million (61 per cent), UNHCR Japan for $6.2 million (13 per cent) and España con ACNUR for $7.5 million (16 per cent). The National Associations in the United Kingdom and the United States of America reached an overall return on investment of 1.5, while the National Associations in the remaining four countries, which started their activities only in 1999, did not yet break even. *UNHCR explained that originally, National Associations were not requested to launch fund-raising appeals. It was only from 2000 onwards that private sector fund-raising became the major goal for National Associations. According to UNHCR, this explains mainly why the return on investment has not yet reached a higher level in some countries.*

11. Further, the methodology applied and the source data used varied significantly. Also, certain funds retained by National Associations were not included, distorting the calculation of the return on investment and making the results look more favourable. Moreover, the return on investment calculation was not used on a systematic basis as an indicator for measuring the cost-effectiveness of fund-raising activities, nor as a tool for analytical comparison to allow more informed decision-making. The Office of Internal Oversight Services recommended that a methodology for the calculation be determined and applied consistently, including all costs incurred by UNHCR in the field and at headquarters. *UNHCR indicated that they would develop a relevant definition of return on investment.*

III. Budgeting and accounting

12. Complete data on the overall cost of UNHCR's private sector fund-raising activities were not readily available. For National Associations, some costs were recorded under project budgets funded by UNHCR, other costs were covered by funds retained from contributions raised. Moreover, in certain instances, National Associations were located in UNHCR offices and provided with infrastructure and office facilities, the cost of which was charged to UNHCR's administrative budget. The Office of Internal Oversight Services recommended that fund-raising budgets should include a provision to cover the cost of facilities and services provided by UNHCR offices to the National Associations. *UNHCR agreed to implement this recommendation.*

13. No general trend on fund-raising costs financed by UNHCR was evident on a country basis. However, there was a marked increase in most operations in 2000, when overall costs reached $3.9 million, three times as much as in 1999. Given the principle of "seed money" (the initial investment) and the goal of self-sustainability, the Office of Internal Oversight Services would have expected that UNHCR's funding of such activities would progressively decrease. *According to UNHCR, this increase reflects the investment into a marked expansion of private sector fund-raising activities, including the start-up costs of the new National Associations.*

14. Also, the National Associations current practice of retaining up to 10 per cent of each contribution, prior to transferring funds to UNHCR resulted in those contributions and related fund-raising costs being understated in UNHCR's financial statements and other reports. This deduction makes a true comparison of private sector fund-raising activities and the results achieved between countries difficult. Also, the direct use of contributions to cover the National Association's costs weakens UNHCR's control and oversight. Funds retained, although naturally being UNHCR's, were not treated as such and were not included in the project agreement. Consequently, UNHCR had virtually no control over the use of these funds or complete data on the amounts retained for operational costs of National Associations. The Office of Internal Oversight Services recommended that this policy be reconsidered, with preference given to accounting for gross contributions, combined with a corresponding increase in UNHCR's financial support to National Associations. This would significantly enhance the transparency of the level of funds raised and the related cost as well as strengthen UNHCR's oversight with partners. *UNHCR agrees with the necessity to report all incoming resources as gross.*

15. Furthermore, certain National Associations treated unearmarked funds received as unrestricted funds and therefore retained them. The Office of Internal Oversight Services holds the view that all funds raised by National Associations on behalf of UNHCR and using UNHCR's name and logo must be considered as income earmarked for UNHCR, intended to support UNHCR's general and special programmes, unless the donor expressed differently. Given the financial implications of the present interpretation of

unearmarked funds and the lack of control UNHCR has over these funds, OIOS recommended that UNHCR clarify this issue in the Agreements with National Associations. *UNHCR agreed that National Associations should only retain funds earmarked specifically for their activities.*

16. The present lack of transparency of the actual costs associated with fund-raising activities through National Associations calls for a change in the funding arrangements. The Office of Internal Oversight Services recommended that UNHCR, instead of funding certain activities under a project arrangement, should consider co-financing the budget of National Associations. UNHCR should provide the National Associations with a grant, contributing to the overall funding of their budget. In return, the fund-raising budgets of National Associations should include all activities planned and all sources of funding. This should be submitted to UNHCR's scrutiny and approval, irrespective of the source of funding. *UNHCR agreed that they should be able to review all the activities of National Associations, as the National Associations have been mainly established to raise funds for UNHCR projects. UNHCR will develop the relevant mechanism to implement this.*

IV. National Associations as the preferred model

17. The UNHCR *Guide on Planning and Organizing Private Sector Fund-Raising* describes National Associations as an attractive model for pursuing fund-raising activities, and UNHCR has decided that a harmonized network of National Associations would serve as the principal tool. However, except for Spain, the overall picture of the effectiveness of National Associations is less than positive. On the contrary, the most successful fund raisers were the UNHCR country offices in Italy and Japan, directly implementing private sector fund-raising activities. Therefore, the paragon of the National Association has not yet been confirmed by the results achieved so far. In the view of the Office of Internal Oversight Services, it therefore would be premature to pursue solely this concept as the preferred fund-raising model until the existing Associations have proven that they can meet their financial targets over a reasonable period of time and become self-sustainable. *UNHCR indicated that developing National Associations was often the preferred model since National Associations as charities under national law could provide donors with tax-exempt certificates, whereas UNHCR, as an international organization was not always able to do so. However, UNHCR acknowledged that proper monitoring and evaluation reviews should be developed to ensure UNHCR funds are efficiently invested. Also, prior to creating any new National Associations, UNHCR will concentrate on existing National Associations to ensure they reach planned fund-raising levels and move towards self-sustainability.* OIOS is aware that the tax-deductible status is an important incentive for potential donors. -UNHCR should therefore intensify its efforts to obtain this status in additional countries.

V. Earmarking of contributions

18. Based on data provided by UNHCR, 87 per cent of the contributions raised by the 9 private sector fund-raising operations reviewed during the period 1995 to 1999 were for Special Programmes, and 4 per cent for General Programmes, whereas only 9 per cent of the total contributions were unearmarked. Since some of the National Associations claimed the right to retain all unearmarked funds to finance their operational expenses, the unearmarked contributions remitted to UNHCR were insignificant.

19. This is an important factor in assessing the return on investment, since the funds invested by UNHCR in private sector fund-raising are generally unearmarked funds, whereas the funds received in return are almost exclusively earmarked. These funds are of lesser value than those invested given their restricted use, limiting flexibility. Thus, to create overall positive results for UNHCR, the return on investment would have to be significantly higher than the arithmetical break-even point, so that the amount of earmarked funds raised compensates for the unearmarked funds invested by UNHCR.

20. Furthermore, given the restricted use of earmarked funds, UNHCR should work with National Associations and other private sector fund-raising operations to avoid overly tight earmarking of contributions and identify priority areas, which will benefit from earmarked funds. The Office of Internal Oversight Services recommended that beyond the Global Appeal an annual private sector fund-raising strategy, including country and programme priorities,

be established. *UNHCR concurred that priorities for potential private sector funding need to be defined and communicated to the field offices and National Associations to focus on specific projects to improve the efficiency and effectiveness of private sector fund-raising activities. For fall 2001, the priority theme is refugee children to match with the special session of the General Assembly on children. For the first six months of 2002, the theme will be refugee women, culminating on World Refugee Day, 20 June 2002. Subsequent themes will be defined in due course in full consultation with National Associations and UNHCR offices in the field.*

VI. Reporting, monitoring and audit

21. Another issue of concern was reporting of income from private sector fund-raising activities in UNHCR's financial statements and the UNHCR Global Report, where National Associations were shown as donors. This highlighted the need to clarify their role, and the nature of the contributions raised, the core issue being whether National Associations are donors contributing their own funds to UNHCR or fund raisers acting on behalf of UNHCR. Generally a donation is defined as a contribution made voluntarily. Since National Associations, in most cases, are legally bound to transfer the contributions raised to UNHCR, the funds cannot be seen as their donation. In the view of the Office of Internal Oversight Services, identifying National Associations as donors lacks transparency, and also results in inconsistent reporting. Major private sector donors, channelling funds through National Associations, were not being acknowledged by UNHCR, whereas others who have donated funds directly through the respective UNHCR country office were shown as donors. Further, treating National Associations as donors may give them a role that cannot be justified and could weaken UNHCR's position towards them. The Office of Internal Oversight Services recommended that this core issue be clarified. *UNHCR has already taken corrective action, with the aim of reporting all private sector income per country first with the relevant breakdown thereafter.*

22. At the field level, the reporting/approving lines of private sector fund-raising activities need to be clarified so that the authority of UNHCR country representatives is not weakened when partners communicate directly with UNHCR headquarters. Therefore, the monitoring role of the UNHCR field office should be defined and accountability at that level established. The National Associations reviewed by the Office of Internal Oversight Services acted quite independently and with no real understanding of UNHCR's oversight role. On more than one occasion, OIOS had to explain that UNHCR has the right to audit not only the use of funds received from UNHCR but also the income raised on behalf of UNHCR. *UNHCR indicated that this issue would be clarified in the forthcoming guidelines.*

23. Finally, audit certificates submitted by UNHCR partners should clearly identify the receipt and use of UNHCR funds in accordance with UNHCR requirements. In the specific case of fund-raising projects, the Office of Internal Oversight Services believes that the audit report should not only cover expenditure reported but also the income raised on behalf of UNHCR, as well as compliance with relevant policies and procedures in the Agreements signed between UNHCR and National Associations. The Office of Internal Oversight Services recommended that UNHCR define audit requirements for the submission of audit certificates by National Associations. *UNHCR concurred with this recommendation, which will be incorporated in future Agreements with National Associations.*

VII. Conclusions

24. UNHCR has taken the initiative to expand their fund-raising strategy to the private sector. Although overall this direction has been successful so far, it has not yet been the case on a country-by-country basis. To determine the reasons for success and failure and, hence, monitor factors affecting this, key indicators and benchmarks such as self-sustainability and the methodology for return on investment calculations need to be established. They will enable UNHCR to measure the achievement of objectives, both in individual and overall terms, in the context of the annual strategy, and thus trigger corrective action, where required.

25. UNHCR has already taken positive steps to implement recommendations made by the Office of Internal Oversight Services. Revised guidelines to address key policy issues will be completed by the end of 2001 for both UNHCR and National Associations.

The concept of National Associations will be pursued, but prior to creating additional Associations, UNHCR will ensure that the existing ones reach their planned fund-raising levels and move towards self-sustainability.

(*Signed*) Dileep **Nair**
Under-Secretary-General for
Internal Oversight Services